

Santa Cruz County, Arizona COVID-19 Economic Recovery Survey and Strategy

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Santa Cruz County Board of Supervisors

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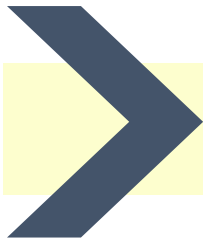
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Executive Summary

The Santa Cruz County Board of Supervisors commissioned this project in August 2020 to understand how key local industry sectors have been impacted by COVID-19 and to identify potential strategies for sustainable economic development efforts.

Thirty-three industry sector leaders were interviewed in August and September across 10 industry sectors (see Appendix A for list of leaders interviewed). The Santa Cruz County Board of Supervisors identified the following sectors as key drivers of, or knowledgeable about, local economic activity: chambers of commerce, tourism bureaus, real estate developers and realtors, downtown Nogales merchants, wineries/bed and breakfast tourism operators, and leaders in border trade, fresh produce, education, ranching and mining. Interviews, which ranged from 45 minutes to 2 hours, were structured to elicit ideas and strategies to address current impacts of COVID-19 and strategies for ways forward beyond the pandemic.

After completing interviews, the consultant analyzed interview transcripts to identify 5 priority themes important to local leaders. These themes for guiding economic development strategy are shown in Figure 1.

Fourteen potential strategies for action were organized across these priority themes, as summarized in the matrix on the following page (Table 1). Immediate and projected impacts of COVID on industry sectors were also identified in the interviews and as well as opportunities to capitalize on the region's existing strengths.

Stakeholders were invited to hear and comment on the findings via a virtual capstone on September 30.

As next steps, the Board of Supervisors and industry sector leaders could prioritize the strategies summarized in Table 1. They could consult with industry leaders interviewed in this report to consider diverse criteria, such as initiatives most easily able to implement, those with the most significant impact, those having a wide range of partnerships, and/or ones maximizing geographically diverse cross-county connections.

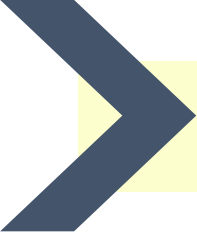
Figure 1: Five Priority Themes for Economic Development



As indicated in the 14th and final strategy outlined in this report, the county could act as a facilitator of self-governing workgroups to take action on priority strategies. Stakeholders could collaborate to develop and implement action plans in which they directly benefit from their investments of time and resources. The county could provide administrative support and facilitate a process by which groups could share progress and achievements with each other on regular intervals.

Table 1: Matrix of Strategies, By Theme and Stakeholder Interests

Priority Themes	Tourism		Employment	Housing and Redevelopment				Support Business			Cross-Collab. Innovations			
Potential Partner/Strategy	1: Organize sector	2: Wine and food	3: Virtual extern/internship employment pipeline	4: New housing	5: Increm. redevelopment	6: Beautif/amenities Nogales	7: Rural overlay districts	8: COVID-19 testing/tracing	9: Back to Work campaign	10: Digital commerce	11: Infrastructure/ED	12: Mining Investment	13: Service efficiencies	14: Implement strategies
County Community Development		x			x		x				x	x	x	x
County Public Works Dept											x	x	x	x
County One-Stop Career Center								x	x					x
County Health Dept		x						x					x	x
Port Authority			x	x							x	x		x
Local governments (Patagonia, Nogales)					x	x						x	x	x
South 32 (mining)			x									x		x
School districts	x		x					x		x		x	x	x
SCC Provisional Community College			x					x		x		x		x
Fresh Produce Assn of Americas		x	x					x			x			x
Nogales Community Developmt		x			x	x			x	x				x
Realtors' Association				x										x
Tourism bureaus/historical soc.	x	x										x		x
Wineries		x			x		x							x
Chambers of commerce	x	x	x			x		x	x	x				x
Development community	x		x	x		x	x							x
Ranchers	x	x					x							x



Purpose of Study and Methods

The Santa Cruz County Board of Supervisors commissioned this project in August 2020 to:


- Understand how industry sectors have been impacted by COVID-19
- Identify potential strategies for sustainable future economic development efforts

Angela Donelson, Ph.D., AICP, was contracted to conduct interviews with stakeholders and report on impacts and potential strategies. The county produced a list of industry leaders across 10 key industry sectors to interview (see Appendix A).

Dr. Donelson contacted leaders to explain the purpose of the study and conduct interviews. In all, she held 32 hours of one to one interviews with 33 industry sector leaders in August and September. Interviews were semi-structured, with questions about what their business or industry sector needed to stay in business during COVID-19 and what could promote their sustainability. Interviewees were also asked about benefits of doing business in the region, their achievements as industry sectors, their aspirations, skills needed in their particular line of business or industry, how existing challenges could be reframed as opportunities, and what strategic initiatives could best support their aspirations.

Interviews were conducted on Zoom and then transcribed with an electronic transcription service, Audix. Where Zoom calls were not practical or feasible, the consultant conducted phone calls and produced detailed interview notes. In all, both sources produced 425 pages of interview transcripts that were run through two algorithms to summarize key themes. The first was a text summarization algorithm, GloVe, short for Global Vectors. This algorithm was developed by Stanford University to convert sentences into network graphs, to find those most central in networks. The 20 sentences most central in the network of interviews were distilled into 6 themes, shown in Appendix B. The second was a topic modeling algorithm developed by Columbia University. It produces visual networks of words (themes). These are captured in the five visuals shown in Appendix C.

The themes from both algorithms were distilled into five thematic categories shown in Figure 1. Those five themes provided an organizing framework in which to summarize 14 strategies for action. For consideration as a strategy, at least three industry sectors had to express willingness to collaborate, and leaders within those industry sectors had to be able to articulate existing or emerging opportunities and resources that could be leveraged toward the strategy.



COVID-19 Immediate and Projected Impacts

In interviews, leaders from all industry sectors reported that the coronavirus pandemic has created great unpredictability in the economic environment. Leaders said they could not project beyond a 3 to 6 month time frame, at best, as to the impact on their industry sector. The pandemic's bearing on business in Nogales, Arizona has been particularly dramatic, as the border has remain closed to non-essential business, shutting down Mexican shopping visits that traditionally have sustained retail.

Although revenue is down for local governments, tax collections are not as low as projected. According to a National Association of County survey in July 2020¹, 88% of counties have been adversely impacted and some have reported deficits exceeding one third of the county general fund. However, managers of the Town of Patagonia and Santa Cruz County indicated that tax revenues due to "Wayfair legislation" – a result of 2018 U.S. Supreme Court ruling in the South Dakota v. Wayfair case -- have made up for much of projected losses. That ruling allows states to require out-of-state online businesses without a physical presence to collect and remit tax on sales from transactions in their state. A summary of impacts is shown below:

Table 2: COVID-19 Immediate and Projected Impacts by Sector

Sector/s	Impacts
Fresh produce	Food service to retail struggling; how it comes back will impact the fresh produce industry in Nogales. Longer, but safer, produce inspections
Wineries	Market is growing, although farm winery business models dependent on tasting rooms and retail may be unfavorably impacted
Tourism	50% occupancy, group function restrictions have huge impacts, including festivals/food trucks; bed tax down
Retail/ restaurants	Many businesses on the margins – if they carry any debt, they are in trouble; downtown Nogales devastated by federal border policy
Trade	Truck crossings down, but not as much as other ports of entry from Mexico
Cattle/ranching	No layoffs locally, although supply chain, feed yards are backed up
Education	Distance learning more challenging; adults lack technology, digital literacy
Government	More services such as utility bill payments and building inspections going virtual; sales tax collections are not as dire as projected
Real estate	Sales up, 10-15% increase in valuations, high demand/low supply

¹Comprehensive Analysis of COVID-19'S impact on county finances and implications for the US economy. National Association of Counties. July 2020. <https://www.naco.org/sites/default/files/documents/Analysis-of-COVID-19s-Impact-on-County-Finances-and-Implications-for-the-US-Economy.pdf>

Opportunities to Capitalize on Regional Strengths

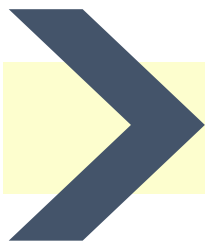
Most leaders interviewed for this report said the county's greatest strength is proximity to Ambos Nogales. The proximity has enabled Nogales to become an important region for various industry sectors. However, that binational presence has been a liability during COVID-19, as long lines and indefinite closures to non-essential businesses continue to deter border crossings.

Notwithstanding, those interviewed agreed this is a time of opportunity for rural communities. Residential real estate values are up 10-15% over the previous year. Real estate professionals reported having many inquiries from those seeking to move from other states.

Several participants noted that new manufacturing interest is emergent because of the US-China trade war. One company is currently dealing with 8 prospects considering Nogales, Sonora manufacturing, which may open new support and logistics opportunities for Nogales, Arizona.

Figure 2: Opportunities and the Region





Potential Cross Sector Collaborative Strategies

In their interviews, stakeholders identified strategies for action, which follow in this section. To be considered one of the fourteen strategies, leaders from at least three industry sectors had to report they were able to collaborate; those leaders also had to be able to articulate existing or emergent opportunities and resources that could be leveraged toward the strategy.

Table 1 on page 3 provides a matrix to organize and summarize these strategies, so they can be identified by stakeholder interests and partnerships. The intent of the matrix is to provide a menu of options by which leaders and the Santa Cruz County Board of Supervisors can prioritize strategies for action.

Figure 3
Strategies 1 and 2 for Tourism



Tourism: Nature/History/Creative Arts/Wine/Food Industry

Strategy 1: Organize the sector

Potential partners	Desired Outcomes	Opportunities/Resources
Existing tourism bureaus, chambers of commerce and historical societies; development community; ranchers; youth/schools, public safety, Arizona Office of Tourism	<ul style="list-style-type: none">• Cohesive marketing strategy strengthening cross-county connections, especially <i>Nogales-Patagonia</i>; <i>Patagonia-Elgin-Sonoita</i> <i>Nogales-Tubac</i>• Public safety strategy: lighter border patrol/sheriff footprint	<ul style="list-style-type: none">• Participate in AOT's Destination Recovery Cohort program• SCC Heritage Alliance - National Heritage Area (March 2019)• Patagonia: Local First Destination Marketing Plan (in progress)• Tubac tourism improvement district and market/branding (in progress)• Nogales Tourism Dev and Marketing Plan (2013)• Visit Tucson: Sonoita region; Heritage area• Youth athletics (Rio Rico and Nogales)

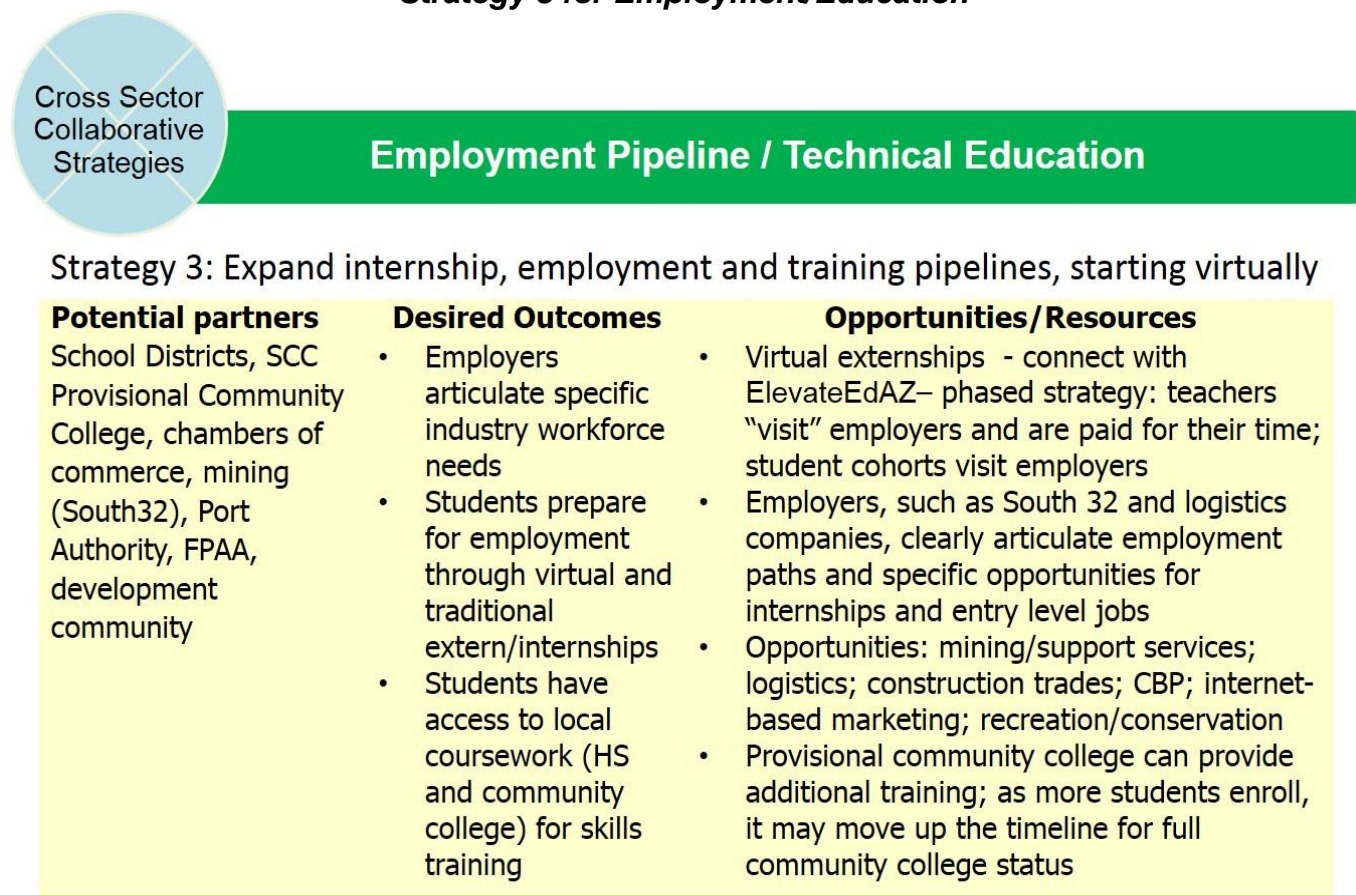
Strategy 2: Expand connections between wineries and local food tourism

Potential partners	Desired Outcomes	Opportunities/Resources
County Health and Com Dev Depts; FPAA; Sonoita-Elgin Chamber; Wineries; Patagonia Sky Island Assoc; ranchers; NCD; Az Office of Tourism; UA Dean Ag & Life Sciences	<ul style="list-style-type: none">• Increase overnight visitors• Develop commercial kitchen for pipeline for local restaurants• Integrate cross-border marketing and cross-border local food, wines and breweries	<ul style="list-style-type: none">• Commercial kitchen - NCD mentoring for food truck development• UA wine library/beef packing• Suitable food licensing for wineries and health licensing for pre-packaged foods• Consistent application and enforcement of county health regulations for wineries• FPAA food and tomato contests• COVID-19 Liaison for agritourism relocation

With **Strategy 1**, great opportunity exists to organize Santa Cruz County tourism. Those interviewed said they are unaware of any prior Santa Cruz County regional tourism initiatives; these could encourage additional visitor spending and overnight visitor stays. Those interviewed discussed the potential for cross-county connections already forming between artists, historians, and musicians. As an initial connecting point, partners in this strategy could collaborate with the Arizona Office of Tourism Destination Recovery Cohort program, an intensive, facilitated process that delivers a detailed and comprehensive recovery plan for a destination, including specific ways to track recovery stages, consider new options and form actionable strategies.

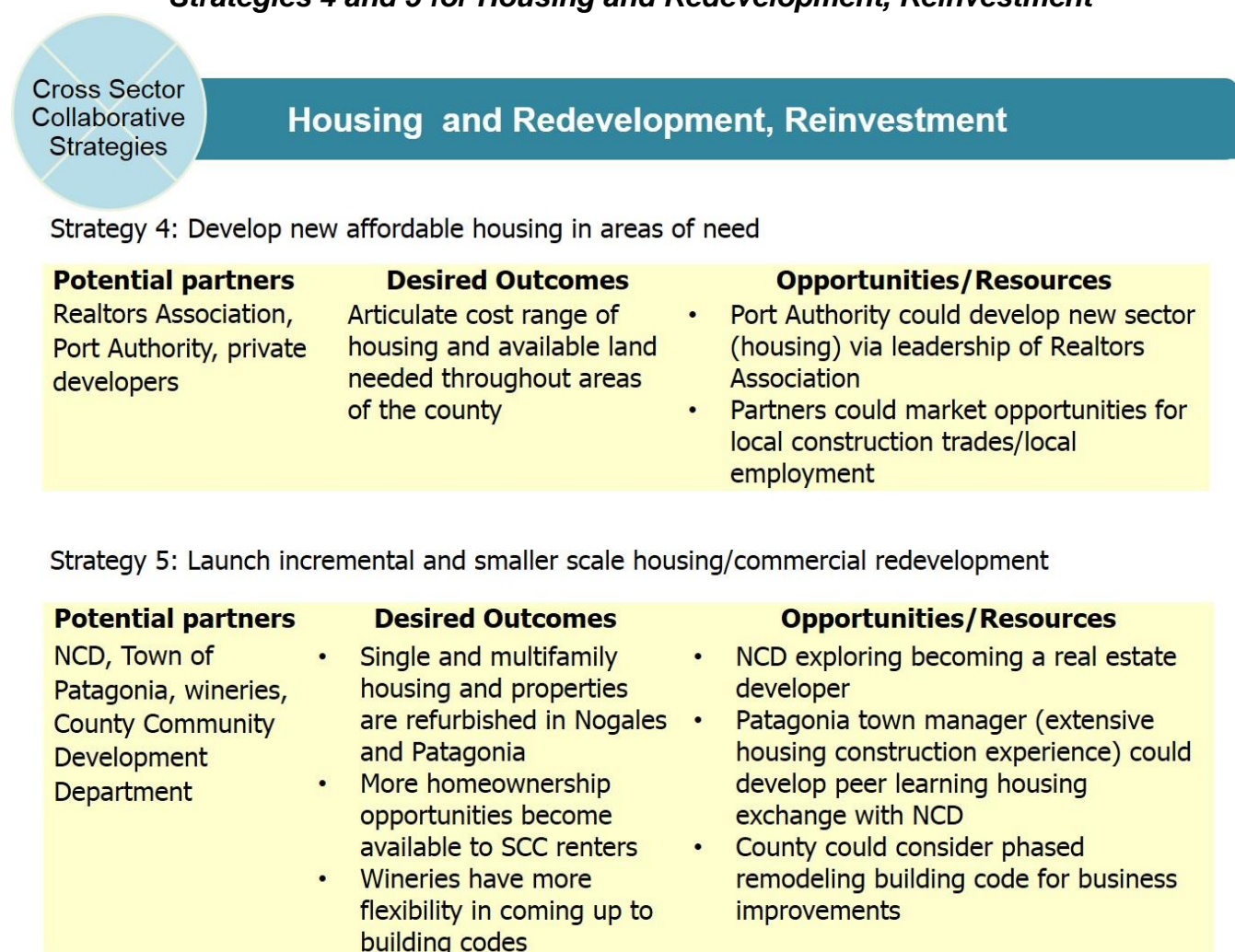
Strategy 2, which addresses expanding connections between wineries and local food tourism, provides an opportunity to capitalize on Santa Cruz County's long history as an American Viticultural Area and develop connections with the local food industry, such as cattle ranching and developing emergent restaurants through food trucks. The University of Arizona College of Agriculture and Life Sciences Dean Dr. Shane Burgess has prioritized development of a wine library and events. Capacity also exists to do direct marketing with the University of Arizona agricultural station, which has beef processing capacity. The county could support these efforts by developing suitable food licensing for wineries that could save them significant costs in health licensing.

Figure 4
Strategy 3 for Employment/Education



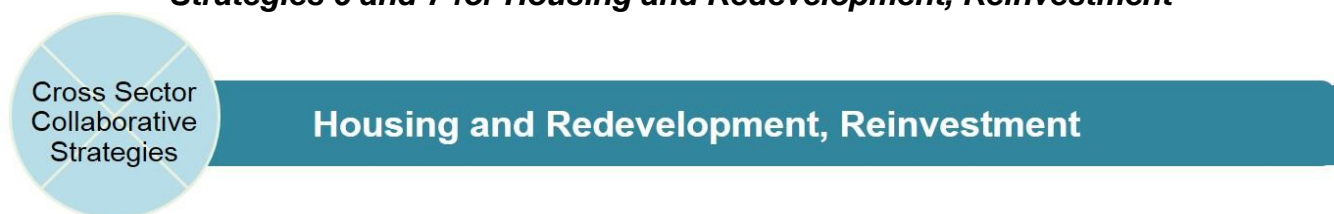
Strategy 3, shown in Figure 4, proposes to expand internships and training for important economic sectors, such as mining/support services, logistics, construction trades and Customs and Border Protection. Relationships that have had difficulty moving forward since COVID-19 can be jump-started with virtual externships. The Center for the Future of Arizona, in partnership with ElevateEdAZ and the Greater Phoenix Chamber of Commerce, developed and launched a virtual pilot program that Santa Cruz County could join in a future round. In the summer of 2020, the program enabled teachers to work with two different companies each day for a total of 8-10 companies to understand industry needs. Companies only had to commit 1-2 hours of their time. In the next phase, students will have internship opportunities made available through the externship pathways. The Santa Cruz County Provisional Community College could also partner in this initiative and provide resources for training as local employers could use this model to clearly articulate and meet their workforce needs.

Figure 5
Strategies 4 and 5 for Housing and Redevelopment, Reinvestment



Strategies 4 and 5 relate to the need for new and improved housing throughout Santa Cruz County. Housing demand is strong but supply is low. Realtors interviewed for this report reported a 10-15% increase in housing valuations in the past year. Few, if any, affordable housing properties are available in the \$125-200,000 range. The Greater Nogales Santa Cruz County Port Authority is considering expanding its priorities to include residential real estate, so as to bring in housing development. **Strategy 5** speaks to the need for new construction and rehabilitation of both commercial and residential properties. The county could consider a phased remodeling code to support this strategy.

Figure 6
Strategies 6 and 7 for Housing and Redevelopment, Reinvestment



Strategy 6: Develop quality of life amenities, beautification for Nogales; reimagined downtown

Potential partners	Desired Outcomes	Opportunities/Resources
NCD, Tubac, development community, local government	<ul style="list-style-type: none"> • Beautify public spaces in Nogales • Serve residents with desired businesses, services • Provide local artisans, furniture makers, musicians with housing and income-generating opportunities 	<ul style="list-style-type: none"> • Work with ADOT to clean up medians • Implement Nogales Artspace Creative Feasibility Study (2015) • NCD could collaborate with Tubac for art/work/performing space • Create regional market study surveying local area (Sahuarita to Sierra Vista) for desired amenities in Nogales

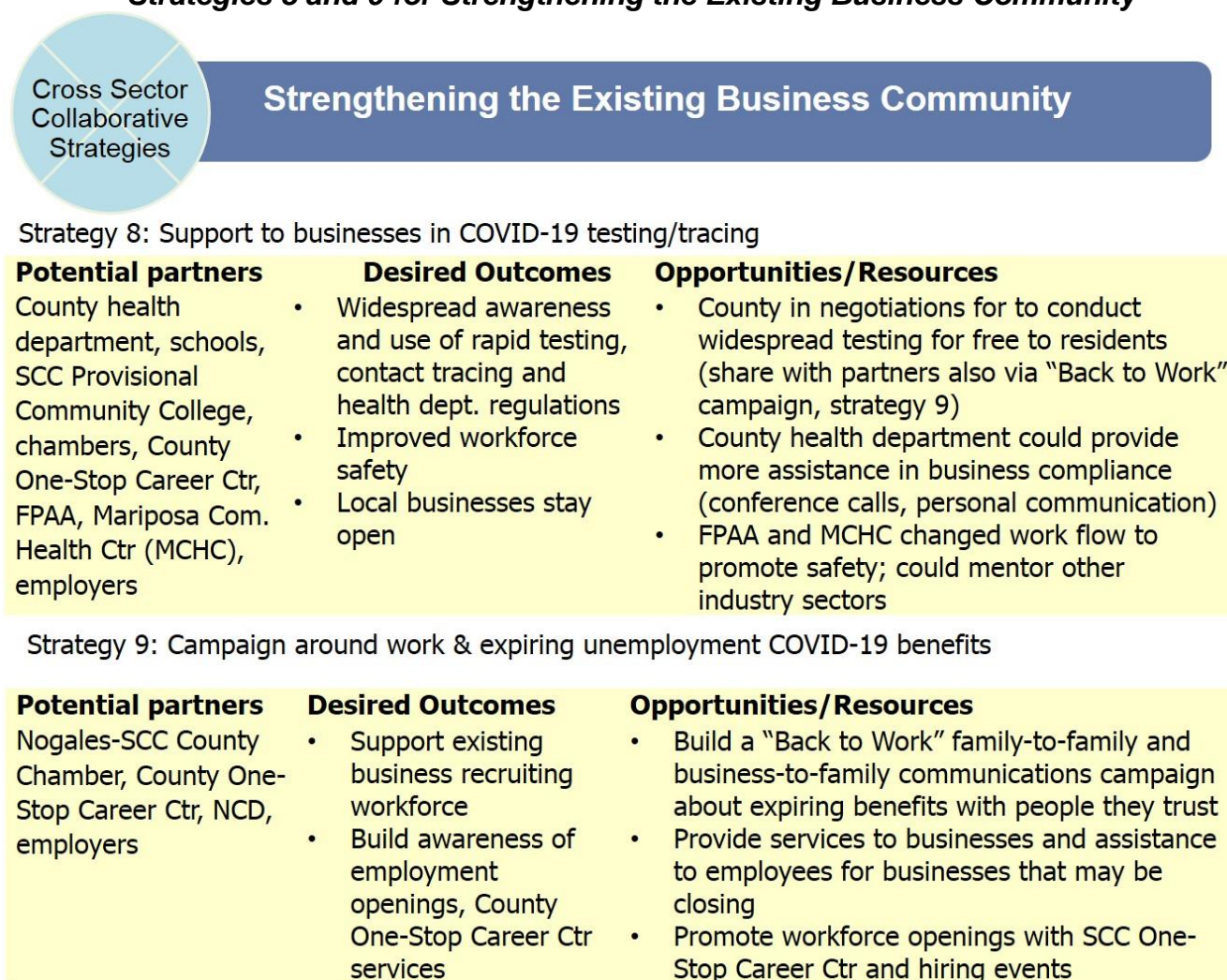
Strategy 7: Create overlay zones of opportunity appropriate to the character of unincorporated areas

Potential partners	Desired Outcomes	Opportunities/Resources
County Community Development Dept., development community, wineries and ranchers in Rio Rico, Sonoita/Elgin, Tubac	<ul style="list-style-type: none"> • Serve residents and draw tourists with amenities and improvements • Facilitate improved signage, intersections, parking • Remove abandoned, blighted properties 	<ul style="list-style-type: none"> • County could purchase/reassemble small commercial lots, conduct flood control/prop. ownership studies to spur development • County could create overlay zones with development fee waivers and relaxed standards • Tubac Chamber of Commerce – mentoring for unincorporated areas in creating special use tourism districts

Strategy 6 addresses the desire to beautify public spaces in Nogales, Arizona as well as to develop a reimagination of its downtown district, with development and celebration of border art, food and renovated properties at lower market rents. Nogales, Arizona has been hard hit by the indefinite closure of the border to non-essential crossings, and as a result retail is disappearing. Nogales Community Development could lead this revisioning effort by implementing a Creative Feasibility Study developed by Artspace. That organization, a non-profit developer of live/work artist housing, artist studios, arts centers and arts-friendly businesses throughout the U.S, produced this study for Nogales in 2015.

Strategy 7 proposes overlay districts throughout the county to improve the physical appearance and economic opportunities in unincorporated areas. The county could re-assemble tiny, unusable lots into larger parcels, such as in Rio Rico, to create more viable commercial spaces. In addition, an enterprise overlay zone in the Sonoita/Elgin/Patagonia area could be created to attract hoteliers/hotel/B&B beds to the Sonoita/Elgin/Patagonia area. As for financing improvements, the Tubac Chamber of Commerce could provide mentorship, as it is in process of creating a tourism improvement district and could help other unincorporated areas in developing their own districts as a revenue source for management.

Figure 7
Strategies 8 and 9 for Strengthening the Existing Business Community



Strategies 8 and 9 directly address the impacts of the coronavirus pandemic on local business and industry. **Strategy 8** relates to direct business support with COVID-19 testing and compliance with regulations. The county has been very successful in conducting rapid testing blitzes, in part due to a \$1.5 million grant, and has been pursuing making testing free of charge. The county health department can continue to support local businesses by conducting regular, direct communication, such as through conference calls and phone calls to support business efforts to comply with rapidly-changing COVID-19 regulations. Businesses

interviewed in this report noted that communication via the health department’s website is insufficient, as interpretation of regulations and creative solutions require more personal forms of communication.

Employers have noted that it has been very difficult to retain employees during the pandemic. Right now, many employees reportedly believe that benefits don't end, or that they can get COVID-19 unemployment checks retroactively. **Strategy 9** addresses this concern and proposes a “Back to Work” campaign countywide. The Santa Cruz County One-Stop Career Center can play a key role in this strategy, providing support with hiring events and support for employers having a hard time finding workers.

Figure 8
Strategy 10 for Strengthening the Existing Business Community



Many interviewed for this report noted there is an opportunity to help local businesses enter into, or improve existing work with, digital commerce. **Strategy 10** outlines the key partners and opportunities, especially those connecting Nogales with Tubac. Nogales Community Development, which already provides small business support, could partner to bring help digital commerce support services to entrepreneurs throughout the county. The school districts and Santa Cruz County Provisional Community College could also collaborate, as this strategy could give students opportunities to learn and serve businesses seeking to develop digital commerce.

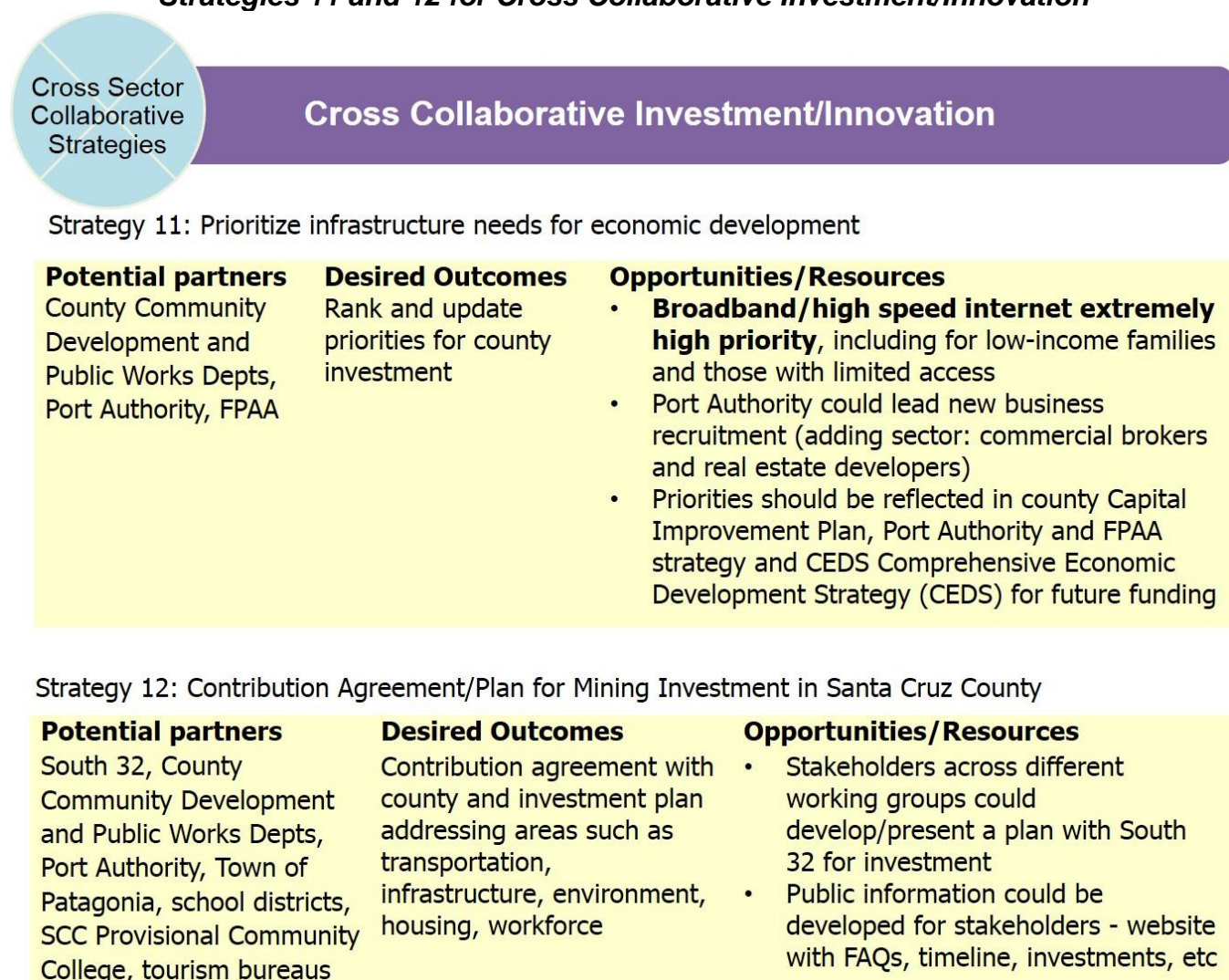
Strategies encapsulated within the fifth and final theme, Cross-collaborative Investment and Innovation Opportunities, are summarized in the remainder of this report. For these, Santa Cruz County could provide a central leadership role in forging important cross-county collaborations.

The first within this theme, **Strategy 11**, is prioritizing infrastructure needs for county economic development. In interviews, broadband/high speed internet was identified as an extremely high priority; access is important for more rural areas of the county and for low-income families that may have difficulty paying for regular services. The county could update

its Capital Improvement Plan with these key infrastructure priorities, identified in Figure 10 (page 14).

These priorities also should be cross referenced in related strategic plans and initiatives, such as those of the Greater Nogales Santa Cruz County Port Authority and the Fresh Produce Association of the Americas. Moreover, these priorities should be reflected in the regional CEDS Comprehensive Economic Development Strategy (CEDS), which the Southeastern Arizona Governments Organizations is beginning to update this fall. Updates to these plans are essential so the county is ready for federal funding opportunities that may become available.

Figure 9
Strategies 11 and 12 for Cross Collaborative Investment/Innovation



As shown in **Strategy 12**, the mining sector plays an important role. South 32's Hermosa project near Patagonia has a projected impact of 2,000 jobs during construction and permanent workforce of 400-500 employees. To capture those benefits, the county could explore developing a contribution agreement or type of community development agreement that considers environmental, transportation, workforce and housing impacts in the county.

Figure 10
Infrastructure Priorities Identified for Economic Development in Interviews

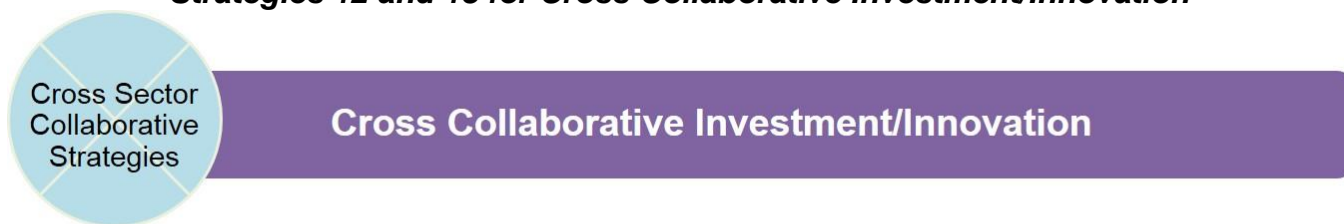
Countywide	<ul style="list-style-type: none"> ▪ Broadband internet presence; countywide connectivity; affordability ▪ Bridges identified by county public works dept as priority ▪ Pendleton Corridor road improvements ▪ Railroad overpasses, particularly off of Grand Avenue north of Mariposa Road ▪ SENTRI lanes at Mariposa POE ▪ Walking paths and pet-friendly parks
Tubac	<ul style="list-style-type: none"> ▪ Parking/handicapped access ▪ Septic system constrains new business development ▪ Walkways, lighting, trash receptacles, a vibrant park/plaza
Sonoita	<ul style="list-style-type: none"> ▪ 4 way stop at Hwys 82 & 83 with crosswalks for traffic calming/walkability ▪ Signage, parking ▪ Grading roads/road maintenance
Patagonia	<ul style="list-style-type: none"> ▪ Water treatment plant improvements (underway) ▪ Park improvements (underway)
Nogales	<ul style="list-style-type: none"> ▪ SR189 flyover ramp ▪ Modernization of the International Outfall Interceptor ▪ Modernization of DeConcini Port of Entry ▪ Repairs for the Nogales Wash
Rio Rico	<ul style="list-style-type: none"> ▪ Multimodal, back-to-back trans-shipment facility at Rio Rico/development of railhead facility ▪ Ruby Road bridge ▪ Modernization of the I-19 Interchanges at Ruby Road and Rio Rico Drive

Strategy 13 in Figure 11 supports the county's continued desire to put more services online, engage in joint use agreements and enter into Intergovernmental Agreements (IGAs) to save costs, promote efficiencies and maximize efficiencies/expertise of staff. The county has existing IGAs with the Town of Patagonia for animal control and libraries, as well as with both school districts for health services and public information. The county would like to pursue additional IGAs, such as with the City of Nogales, to manage parks and building inspections and with the school districts for additional facilities maintenance.

The county can continue to create efficiencies in services, following guidance from the International City and County Management Association. That organization provides performance data analytics, such as recommended personnel per capita in specific areas of service (transportation, libraries, technology, etc).

As outlined in the final strategy, **Strategy 14**, the county can be a convener and facilitator of self-governing workgroups that implement these strategies. Partners in those workgroups could develop action plans for areas in which they directly benefit from their investments of time and resources. The county could provide administrative support to assist these groups in sharing progress with each other on regular intervals and in measuring progress toward joint goals.

Figure 11
Strategies 12 and 13 for Cross Collaborative Investment/Innovation



Strategy 13: Strengthen IGAs and other efficiency measures that maximize capacity/expertise

Potential partners	Desired Outcomes	Opportunities/Resources
County, school districts, local governments	<ul style="list-style-type: none"> • Improve efficiencies • Maximize staff capacity • Reduce costs of services/save taxpayer money 	<ul style="list-style-type: none"> • Continue to expand/explore new IGAs • Joint use of county equipment • Investigate/continue to deploy efficiencies in services (e.g., ICMA performance data analytics and information technology)

Strategy 14: Implement high-priority strategies through self-governing work groups

Potential partners	Desired Outcomes	Opportunities/Resources
All partners, county could lead process	Priority economic development strategies are implemented	<ul style="list-style-type: none"> • County can create structure for groups to lead own strategies through decentralized framework, with some administrative support • County could convene working groups quarterly or other interval to share action on strategies/promote accountability • Publicize work through media/press campaign

As next steps, the Board of Supervisors and industry sector leaders could jointly prioritize strategies summarized in the matrix shown in Table 1 (page 3). In that decision-making process, they could consider diverse criteria in prioritizing initiatives. For example, they could select strategies most easily able to implement, those with the most significant impact, those having a wide range of partnerships, and/or ones maximizing geographically diverse cross-county connections.